

Message Text

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16

ACTION EB-07

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INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02 L-03

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TAGS: ECON, CA

SUBJECT: POSSIBLE CHANGES IN GOC ANTI-INFLATION PROGRAM- EXPORT
LEVY

REF: OTTAWA 4777

1. AT NEWS CONFERENCE FOLLOWING FEBRUARY 2 MEETING WITH
PROVINCIAL FINANCE MINISTERS, FINMIN MACDONALD TOLD PRESS HE
WOULD REPORT TO CABINET ON ADVERSE REACTION OF SEVERAL
PROVINCES TO PROPOSED EXPORT LEVY. MACDONALD DID NOT PROMISE
THAT CABINET WOULD DROP LEVY, WHICH WOULD BE 100 PERCENT
SURTAX ON "EXCESS" PROFITS OF EXPORTING FIRMS AND WHICH NEEDS
PARLIAMENTARY APPROVAL OF AMENDMENT TO INCOME TAX ACT, BUT
THAT CABINET WOULD REVIEW TAX PROPOSAL FOR POSSIBLE CHANGES.

2. APPARENTLY SEVERAL PROVINCIAL MINISTERS (NAMED IN NEWS-
PAPER REPORTS WERE THOSE OF B.C., ALBERTA, ONTARIO, QUEBEC
AND NEWFOUNDLAND), TOLD MACDONALD THAT PROPOSED LEVY WOULD
INHIBIT EXPORT SALES AND EMPEDE FUTURE CAPITAL INVESTMENT
IN THEIR PROVINCES. ALBERTA FINANCE MINISTER MERVIN LEITCH
WAS QUOTED IN PRESS AS SAYING HE EXPRESSED "DEEP
CONCERN" THAT LEVY WOULD INHIBIT INVESTMENT IN NEW
PLANT AND EQUIPMENT, AND ONTARIO TREASURER DARCY
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MCKEOUGH REPORTEDLY SAID LEVY SHOULD BE DISINCENTIVE FOR

EXPORTS.

3. PRESS ALSO REPORTED THAT TWO MORE PROVINCES, NEWFOUNDLAND AND PRINCE EDWARD ISLAND, SIGNED ANTI-INFLATION AGREEMENTS WITH FEDERAL GOVERNMENT. AS IN CASE OF ONTARIO, WHICH WAS FIRST TO SIGN SUCH AGREEMENT, PROVINCIAL ACTION PLACES WAGES AND PRICES IN PROVINCIAL PUBLIC SECTOR UNDER MONITORING SYSTEM OF FEDERAL ANTI-INFLATION BOARD.

4. COMMENT: EXPORT LEVY WAS DESIGNED BY FEDERAL PLANNERS OF ANTI-INFLATION PROGRAM TO PREVENT SHORTAGES FROM DEVELOPING IN CANADA. SINCE EXPORT PRICES ARE NOT CONTROLLED, PLANNERS WERE FEARFUL EXPORTERS WOULD SELL IN INTERNATIONAL MARKETS RATHER THAN IN PRICE-CONTROLLED DOMESTIC MARKET. PLANNERS PROBABLY DID NOT FORSEE SUCH STRONG OPPOSITION TO EXPORT LEVY PROPOSAL FROM PROVINCES, WHOSE COOPERATION WITH FEDERAL GOVERNMENT IS ESSENTIAL TO OVERALL SUCCESS OF PROGRAM.

5. FEDERAL GOVERNMENT IS NOW FACED WITH A DIFFICULT CHOICE: CONTINUE WITH PLANS FOR LEVY AND RUN RISK OF NON-COOPERATION FROM PROVINCES, MAKE TAX PROPOSAL SO WEAK THAT PLANNERS' WORST FEARS (I.E. DOMESTIC SHORTAGES OF BASIC MATERIALS) WILL BE REALIZED, OR SEEK ANOTHER MEANS OF PREVENTING SHORTAGES, POSSIBLY THE USE OF EXPORT CONTROLS UNDER THE EXPORT AND IMPORT PERMITS ACT WITH ALL OF THE ATTENDANT ADMINISTRATIVE PROBLEMS OF MONITORING, ALLOCATION, AND ENFORCEMENT.

6. AS FEDERAL ANTI-INFLATION PROGRAM DEVELOPS WITH ITS RESULTANT MAZE OF BUREAUCRATIC REGULATIONS, OPPOSITION FROM ORGANIZED LABOR, REQUESTS FOR CHANGES FROM SPECIAL INTEREST GROUPS, AND CRITICISMS FROM VARIOUS PUBLIC SECTORS THAT PROGRAM IS INEQUITABLE, UNWORKABLE OR BOTH, ONE CAN ONLY WONDER AT THE PERSISTENT OPTIMISM OF AIB CHAIRMAN PEPIN WHO ASSURED ECON COUNSELOR A COUPLE OF DAYS AGO THAT EVERYTHING WAS GOING "VERY WELL" ON THE CONTROL FRONT. IN FACT, THE DOUBTS AND CONFUSION MAY BE HAVING POSITIVE SHORT-RUN REPEAT SHORT-RUN EFFECT
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ON THE INFLATION RATE BY CAUSING THOSE AFFECTED BY THE PROGRAM TO POSTPONE WAGE AND PRICE DECISION PENDING CLARIFICATION OF THE RULES.
JOHNSON

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